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Financial and Performance Audit
Directorate

Quality Control Review

Coopers & Lybrand, L.L.P.
Worcester Polytechnic Institute
Fiscal Year Ended June 30, 1996

Report Number PO 97-054

September 30, 1997

Office of the Inspector General
Department of Defense

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Acronyms

DoD	Department of Defense
GAAS	Generally Accepted Auditing Standards
GAS	Government Auditing Standards
OMB	Office of Management and Budget
WPI	Worcester Polytechnic Institute



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



September 30, 1997

Chairman, Non-Profit Industry Group
Coopers & Lybrand L.L.P.
1301 Avenue of the Americas
New York, New York 10019-6013

SUBJECT: Quality Control Review of Coopers & Lybrand L.L.P.
Worcester Polytechnic Institute
Fiscal Year Ended June 30, 1996
Report No. PO97-054

Introduction

We are providing this report for your information and use. Your Boston office performed the single audit for Worcester Polytechnic Institute (WPI), Worcester, Massachusetts. The audit is required by Office of Management and Budget (OMB) Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions." For the fiscal year ended June 30, 1996, WPI reported total Federal expenditures of \$8,246,007 representing \$1,036,384 for the Department of Defense (DoD) and \$7,209,623 for other Federal agencies.

On October 4, 1996, Coopers & Lybrand L.L.P. issued individual reports on the financial statements; Schedule of Federal Awards; internal controls based on an audit of the financial statements; and compliance with laws, regulations, contracts, and grants based on an audit of the financial statements. On October 26, 1996, Coopers & Lybrand L.L.P. issued individual reports on the internal control structure used in administering Federal awards, compliance with general requirements, and compliance with specific requirements applicable to major programs. The auditors issued an unqualified opinion on the financial statements, Schedule of Federal Awards, and compliance with specific requirements applicable to major programs. Coopers & Lybrand L.L.P. issued positive and negative assurance statements on compliance with general requirements. Positive assurance states that, with respect to the items tested, the results of the auditors' procedures disclosed no material instances of noncompliance. Negative assurance states that, with respect to the items not tested, nothing came to the auditors' attention that caused them to believe that WPI had not complied in all material respects. The auditors also obtained an understanding of the

internal controls related to the financial statements and Federal awards. The audit report describes the auditors' scope of work in obtaining that understanding and in assessing control risk. The report on internal controls further describes the significant internal controls and control structure, including the controls that provide reasonable assurance that Federal awards are being managed in compliance with applicable laws and regulations.

Quality Control Review Results

Except for the audit of the major program student financial aid, which we did not review, we found that the OMB Circular A-133 audit performed by Coopers & Lybrand L.L.P. meets the applicable guidance and regulatory requirements in the Circular, its related Compliance Supplement, Government Auditing Standards (GAS), Generally Accepted Auditing Standards (GAAS), and the provisions of the Federal award agreements for the financial statements, internal controls, and compliance requirements. The audit programs used on the engagement are comprehensive, and the working papers that support the audit reports were prepared in a professional manner.

Quality Control Review Objective

The objective of a quality control review is to assure that the audit was conducted in accordance with applicable standards and meets the auditing requirements of OMB Circular A-133. As the cognizant agency for WPI, we conducted a quality control review of the audit working papers. We focused our review on the following qualitative aspects of the audit: due professional care, planning, supervision, independence, quality control, internal controls, substantive testing, general and specific compliance testing, and the Schedule of Federal Awards.

The engagement partner informed us that Coopers & Lybrand L.L.P. recently had a peer review performed by Ernst & Young LLP for the year ended March 31, 1997, and the peer review letter has not yet been issued. We reviewed the most recent peer review letter, dated September 23, 1994, issued by Ernst & Young LLP, which found that Coopers & Lybrand L.L.P. met the objectives of the quality control review standards established by the American Institute of Certified Public Accountants and that the standards were being complied with during the fiscal year ended March 31, 1994.

Scope and Methodology

We used the 1991 edition of the Uniform Quality Control Guide for Single Audits (the Guide), which was approved by the President's Council on Integrity and Efficiency as guidance for performing the quality control review procedures. The Guide is organized

by the general and field work audit standards and the required elements of a single audit. The Guide is further divided into the substantive work performed during the audit of the financial statements and the specific program compliance testing for major programs. In addition, we supplemented the Guide to include additional review of transaction testing. We conducted our review in September 1997. We did not review the Coopers & Lybrand L.L.P. audit of the major program student financial aid because it does not include DoD funds. The Schedule of Federal Awards shows fiscal year ended June 30, 1996, student financial aid expenditures in the amount of \$1,754,350 or 21 percent of total Federal award expenditures.

Results of Prior Quality Control Reviews

We identified minor quality control review findings and recommendations at 3 of the 10 Coopers & Lybrand L.L.P. locations we visited from January 1, 1995, through December 31, 1996. The affected offices were notified, and no further action is necessary.

Background

The Inspector General Act of 1978, Public Law 95-452, prescribes the duties and responsibilities of that office. In implementing those responsibilities, the Inspector General is required to "take appropriate steps to assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General."

The Single Audit Act of 1984 (Public Law 98-502) was intended to improve the financial management of state and local governments whose annual expenditures total \$100,000 or more with respect to Federal financial assistance programs; establish uniform requirements for audits of Federal financial assistance; promote efficient and effective use of audit resources; and ensure that Federal departments and agencies rely on and use the audit work done under the Act, to the maximum extent practicable.

The Single Audit Act Amendments of 1996, based on 12 years of experience under the 1984 Act, are intended to strengthen the usefulness of single audits by increasing the audit threshold from \$100,000 to \$300,000 with respect to Federal financial assistance programs before an audit is required under the Act, by selecting programs to be audited on the basis of risk assessment rather than the amount of funds involved, and by improving the contents and timeliness of single audits. The Amendments also bring nonprofit organizations, previously covered by similar requirements in OMB Circular A-133, under the Single Audit Act.

OMB Circular A-133 establishes the Federal audit and reporting requirements for nonprofit and educational institutions. It provides that an audit made in accordance

with the Circular shall be in lieu of any financial audit required under individual Federal awards. An agency must rely on the audit to the extent that it provides the information and assurances that an agency needs to carry out its overall responsibilities. The independent public accountant, Federal auditor, and other non-Federal auditors must consider each other's work in determining the nature, timing, and extent of their respective audit procedures. The Circular also requires that the cognizant agency obtain or conduct quality control reviews of selected audits made by non-Federal auditors and provide the results, when appropriate, to other interested organizations. When the OMB has not assigned a cognizant agency, then the Federal agency that provides the predominant amount of direct funding to a recipient is designated as the oversight agency. The oversight agency is responsible for providing technical advice to institutions and independent auditors when requested by the recipient and may assume all or some of the responsibilities normally performed by the cognizant agency. The revised Circular was issued June 24, 1997, to incorporate the changes in the Single Audit Act Amendments of 1996. Its provisions apply to audits of fiscal years beginning after June 30, 1996.

Discussion of Results

During our quality control review, we reviewed and took no exception to the working papers supporting the following reports and schedules.

Independent Accountant's Report on Basic Financial Statements. The auditor is required to obtain reasonable assurance about whether the financial statements are free of material misstatement. We reviewed the audit program and the testing of evidential matter to determine whether testing was sufficient, based on assessment of control risk, to warrant the conclusion reached and whether the working papers support the conclusion.

Independent Accountant's Report on Schedule of Federal Awards. The auditor is required to subject the Schedule of Federal Awards to the auditing procedures applicable to the audit of the financial statements and to express an opinion regarding whether the information in the Schedule is fairly stated in relation to the financial statements taken as a whole. Our review was included in the evaluation steps of the audit working papers related to the "Independent Accountant's Report on Basic Financial Statements."

Independent Accountant's Report on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The auditor is required to obtain an understanding of the internal control structure that is sufficient to plan the audit and assess control risk for the assertions embodied in the financial statements. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the substantive testing performed.

Independent Accountant's Report on the Internal Control Structure Used in Administering Federal Awards. The auditor is required to obtain an understanding of the internal control structure to assess control risk to determine whether the auditor intends to place reliance on the internal control structure. The auditor must perform tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance, review the system for monitoring subrecipients and obtaining and acting on subrecipient audit reports, and evaluate the effectiveness of the controls used to calculate and bill direct and indirect costs in accordance with the requirements in the Compliance Supplement. We reviewed the audit program for the appropriate procedures, the working paper documentation, and the tests of controls performed.

Independent Accountant's Report on Compliance with Laws, Regulations, Contracts, and Grants Based on an Audit of the Basic Financial Statements Performed in Accordance with Government Auditing Standards. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on the determination of financial statement amounts. We reviewed the audit program for the appropriate procedures, the working paper documentation, its support, and the compliance tests performed.

Independent Accountant's Report on Compliance with General Requirements. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on any of its major Federal programs. General requirements are those that could have a material effect on the recipient's financial statements including those prepared for Federal programs. The auditors' procedures were limited to those prescribed in the OMB Circular A-133 Compliance Supplement. We reviewed the audit program for the appropriate procedures, compared the audit program steps with those in the Compliance Supplement to make sure that the appropriate areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

Independent Accountant's Report on Compliance with Specific Requirements Applicable to Major Programs. The auditor is required to determine whether the recipient has complied with laws and regulations that may have a direct and material effect on its major Federal programs. The requirements included types of services allowed or not allowed; eligibility; matching, level of effort and earmarking; reporting; claims for advances and reimbursements; cost allocation; subrecipient monitoring; amounts claimed for reimbursement or used for matching; and special tests and provisions. For the major program research and development, we reviewed the audit program for the appropriate procedures, compared the audit program steps with those in the Compliance Supplement to make sure that the appropriate areas were audited, reviewed the working paper documentation and its support, reviewed the compliance tests performed, and reevaluated selected compliance items.

Schedule of Findings and Questioned Costs. The auditor may report immaterial findings in the audit report or in a separate letter to the recipient. Coopers & Lybrand L.L.P. included a Schedule of Reportable Conditions in its report and prepared two separate letters. See Enclosure 1 for a Schedule of Reportable Conditions, Findings and Questioned Costs, and Management Letter Comments and Recommendations.

Comments

Because this report contains no findings or recommendations, written comments are not required. We appreciate the courtesies extended during the review. If you have questions on this report, please contact Ms. Barbara Smolenyak, Program Director, at (703) 604-8761 or Mr. Steven E. Zane, Project Manager, at (703) 604-8772. See Enclosure 2 for the report distribution.

A handwritten signature in black ink, appearing to read "Russell A. Rau", with a stylized, looping flourish at the end.

Russell A. Rau
Assistant Inspector General
Policy and Oversight

Enclosures

**Worcester Polytechnic Institute
Fiscal Year Ended June 30, 1996**

**Schedule of Reportable Conditions, Findings and Questioned Costs, and
Management Letter Comments and Recommendations**

<u>Page No.</u>	<u>Finding</u>	<u>Amount Questioned</u>	<u>Agency</u>
<u>Reportable Conditions</u>			
27	Purchasing ¹	\$0	DoD
28	Equipment Inventory ¹	\$0	DoD
<u>Letter of Immaterial Findings, October 26, 1996</u>			
Sponsored Research			
1	Direct Questioned Cost ¹	\$119	NSF
1	Procurement	\$0	DoD
2	Travel ¹	\$1,840	NSF
2	Subcode Classification ¹	\$0	DoD
Student Financial Aid			
3	Entrance and Exit Interviews ¹	\$0	DoEd
3	Expected Family Contribution	\$300	DoEd
4	Refunds	\$45	DoEd

¹Similar findings were identified in the prior year.

Note: Acronyms identified at the end of the schedule.

**Worcester Polytechnic Institute
Fiscal Year Ended June 30, 1996**

**Schedule of Reportable Conditions, Findings and Questioned Costs, and
Management Letter Comments and Recommendations (Cont'd)**

<u>Page No.</u>	<u>Finding</u>	<u>Amount Questioned</u>	<u>Agency</u>
<u>Letter of Comments and Recommendations, October 5, 1996</u>			
3	Purchasing and Receiving	\$0	DoD
3	Year 2000	\$0	DoD
4	Disaster Recovery Plan	\$0	DoD
4	Split-Interest Agreements	\$0	DoD
5	SFAS Nos. 116 and 117 ²	\$0	DoD
6	Gifts ²	\$0	DoD
6	Accounts Receivable ²	\$0	DoD
7	Fixed Asset Inventory ²	\$0	DoD

²Similar comments and recommendations were identified in the prior year.

Acronyms

DoD	Department of Defense
DoEd	Department of Education
NSF	National Science Foundation

**Worcester Polytechnic Institute
Fiscal Year Ended June 30, 1996**

Distribution List

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**Worcester Polytechnic Institute
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U.S. Agency for International Development
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**Worcester Polytechnic Institute
Fiscal Year Ended June 30, 1996**

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Washington, DC 20546-0001

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**Worcester Polytechnic Institute
Fiscal Year Ended June 30, 1996**

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**Worcester Polytechnic Institute
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Evaluation Team Members

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